T E S T I M O N Y

GAO's Human Capital Reform Legislation

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I am pleased to be here today to testify on the proposed human capital flexibilities being requested with respect to the General Accounting Office.

These proposals are of particular interest to me. For over thirty years, I consulted with leading organizations around the world in human resources strategy, compensation, and change management, and for six of those years I was CEO of Watson Wyatt Worldwide, a major consulting firm similar in size and with similar employee competencies to GAO today. For the past three years, in my role as President of the Private Sector Council, a primary focus has been on modernizing outdated federal human resources policies. In this regard, I view the GAO proposals as steps that are very much in the right direction.

First, these proposals are part of a clear and well-thought-out process to strengthen the management systems and organizational capabilities of GAO. They follow on the authorities granted to GAO by Congress in the GAO Personnel Flexibilities Act of 2000, flexibilities that have been used judiciously to reshape GAO's workforce.

Second, the proposals have been developed collaboratively, with considerable input from employees within GAO, including GAO's Employee Advisory Council, and consultation with OPM, OMB, and a number of good-government organizations.

Third, taken together, the proposals and existing flexibilities provide the Comptroller General and his management team valuable tools to help them develop, shape, motivate, and reward GAO's changing workforce. Over 30% of GAO's employees have less than five years of service, and they represent a generation for whom traditional civil service personnel regulations are ill suited.

Fourth, if you were to pick any one individual in the federal government today to lead the testing of new human capital approaches, it would be the Comptroller General. His background in human resources consulting, his broad management experience, his inclusive and deliberate management style, and his proven integrity suit him perfectly for this task.

There is no question in my mind that these flexibilities will benefit the employees of GAO – through fairer rewards and an even stronger organization in which to work – as well as Congress and the public, through a more effective GAO. They also can serve as a model for other agencies and the federal workforce as a whole, as civil service policies are brought into the 21st century.

In the private sector, none of the GAO proposals would be novel or controversial – all of them are accepted, standard practice. From a federal civil service perspective, however, the introduction of performance pay may generate some controversy. Accordingly, I would like to take a few moments to address this issue specifically.

Under the current General Schedule for federal employees, pay is set by grade and time in position, with no direct consideration for individual employee performance. One rationale for this practice has been that performance discrimination could be subject to cronyism or other types of favoritism. Another rationale is that, unlike the private sector, which often has useful and clear measures of performance, appraising federal employee performance would require considerable subjectivity, which could be unfair.

This argument of course assumes that the existing system – paying the same salary to all people who have been in the same job for the same length of time – is fair. It is equal, but it is by no means fair. It rewards someone doing marginal work exactly the same as someone doing outstanding work; it has a demoralizing effect over time; and it provides no incentive to improve to employees for whom compensation is a motivator.

Merit pay – adjusting salaries based on performance and competencies – is not a perfect system, and there is always the possibility of some bias creeping into the system. But, as with any human resources process – such as hiring, succession planning, selecting people for training, or determining who gets promoted – you can't legislate perfection. What you can do is train managers, emphasize the right values, audit the processes, and give them the tools – such as merit pay – with which to lead. Assessing organizational and individual performance is a key responsibility of any organization, and there is no well-managed private sector company that doesn't take this responsibility seriously.

Today, most private sector employers have performance management systems that are perceived as fair and that generally operate without bias. They have achieved this by:

- Clearly defining competencies related to each position,
- Specifying performance objectives, linking individual goals to the organization's overall mission and strategy,
- Ensuring that employees and supervisors agree on goals and measurements at the beginning of the performance period,
- Training both employees and supervisors, and
- Implementing systems such as 360 degree feedback to broaden the base of inputs for the reviews.

These systems aren't perfect, but they are far preferable to a system that pays only for time in position.

I want to emphasize how carefully and effectively the Comptroller General is making the transition to merit pay. First, he has built a sound new performance management program as the foundation for the new pay system. Second, he has staged the implementation to give GAO two more years of experience with the new program before implementing merit pay. Third, he has assured all GAO employees that, under the new system, they will receive at least a general increase (its size to be determined on market conditions and other financial considerations) so long as their performance meets or exceeds the basic expectations of their positions.

This is not revolutionary; it is not risky; it is not unfair. This is sound management, judiciously applied.

Finally, I would like also to comment briefly on the other elements of the proposed legislation.

Pay Setting Policy. In my view, it is appropriate and necessary to provide the Comptroller General with the authority to fix pay schedules in accordance with market conditions, private sector practices, overall agency performance, and funding considerations, as is being requested in the legislation. Matching market conditions is particularly important given the increasing competition for skilled financial expertise.

Pay Retention. This recommendation provides that employees being demoted to a grade or band for which their salary is above the maximum have their salaries frozen (except for possible performance awards) until the ranges increase to the point where the maximum exceeds their rate of pay. This is common private sector practice and a very sensible fix to a long-standing problem in Title 5. There is no reason to increase pay for anyone whose salary exceeds the maximum value for their position.

Increased annual leave for upper level employees; relocation benefit flexibility. Both of these provisions are common practices in the private sector and often necessary when recruiting upper level employees. Today's workforce is far more mobile than that envisioned in Title 5. GAO needs to be able to provide a competitive package and reasonable inducements to attract upper level employees from outside its ranks.

Executive Exchange Program. The Private Sector Council has long believed that both the public and private sectors would benefit from the ability to exchange key managerial and professional employees for temporary assignments. In a project we did for the Office of Personnel Management in 2000, a number of private sector employers expressed strong interest in a governmentwide exchange program similar to the one GAO is proposing.

Redesignation. The name "Government Accountability Office" is a much clearer description for an outsider of GAO's role and significance, than the name "General Accounting Office." I expect that inside the Beltway the name change will be inconsequential. However, many of the people with whom GAO interacts—the private sector, state and local governments, and foreign agencies—will have a better understanding of what GAO is if the name is changed. Even more important is the effect the name change will have on recruiting. Which would you prefer, a job opportunity with an accounting operation, or an organization charged with helping Congress ensure that federal agencies are accountable?

Chairman Davis and members of the Subcommittee, this concludes my prepared statement. I would be pleased to respond to any questions you may have.